

## **STRATEGIC SOURCING PROGRAM**

The Strategic Sourcing Program is intended to maximize effectiveness, efficiencies, and savings throughout the Department of Defense (DoD) and provide an approach for DoD Components to use to meet or exceed their competitive sourcing goals. It provides a broader approach than the traditional OMB Circular A-76 processes by extending the opportunities to achieve efficiencies to areas that are exempt from the A-76 competitive processes. This program should not be interpreted as avoidance or replacement of A-76 and its focus upon fair competitions to achieve both cost efficiency and the infusion of best business practices. A-76 competition is, and will continue to be, a dominant factor in the Department's plan to do our business more effectively and efficiently. The Strategic Sourcing Program is consistent with the reinvention process described in the OMB Circular A-76 Revised Supplemental Handbook that states:

**The reinvention of government begins by focusing on core mission competencies and service requirements. Thus, the reinvention process must consider a wide range of options, including: the consolidation, restructuring or reengineering of activities, privatization options, make or buy decisions, the adoption of better business management practices, the development of joint ventures with the private sector, asset sales, the possible devolution of activities to state and local governments and the termination of obsolete services or programs. In the context of this larger reinvention effort the scope of this Supplemental Handbook is limited to the conversion of recurring commercial activities to or from in-house, contract or ISSA [*Inter-Service Support Agreement*] performance.**

The strategic sourcing approach accounts for existing DoD manpower management processes that provide for a complete functional or organizational assessment of functions and activities that are commercial, commercial exempt from competition, and inherently governmental in order to achieve program objectives with the optimum balance between program performance and costs. The goal is to determine whether processes can be eliminated, improved, or streamlined. In those instances when improvements can be made within the existing framework, then those changes will be made. The value of this approach is that an assessment of every function or organization is made--regardless of whether the function or activity is commercial, commercial exempt from competition, or inherently governmental. This approach cuts across all functions and organizations, permitting Components to take a complete look at how they do business and to achieve proactively savings in all their functions and activities rather than to focus only on commercial activities. The Strategic Sourcing Program relies on a broad range of manpower management techniques to achieve savings rather than relying solely on A-76 competition. This allows Components to consider a wide range of options, including: elimination of obsolete practices; consolidation of functions or activities; reengineering and restructuring of organizations,

functions, or activities; adoption of best business practices; activity based costing (ABC) management; and privatization of functions or activities. These options are in addition to continued and extensive application of the A-76 competitive process.

Strategic sourcing does not eliminate any statutory, regulatory, or policy requirements, including 10 U.S.C. § 2461, "Commercial or industrial type functions: required studies and reports before conversion to contractor performance;" 10 U.S.C. § 2462, "Contracting for certain supplies and services required when cost is lower;" the Federal Activities Inventory Reform Act of 1998 (P.L. 105.270); OMB Circular A-76 and its Revised Supplemental Handbook on *Performance of Commercial Activities*; DoD Directive 4100.15, *Commercial Activities Program*; and DoD Instruction 4100.33, *Commercial Activities Program Procedures*. Strategic sourcing is an evolving process that should eventually lead to the future competition of functions or activities initially considered inherently governmental or exempt from competition. Many organizations contain a mix of functions or activities that are commercial, commercial exempt from competition, and inherently governmental. By realigning manpower or workload, functions or activities could be eliminated or restructured for competition. For those functions or activities that are inherently governmental or commercial exempt from competition, strategic sourcing provides an alternate approach to optimize performance and savings. Strategic sourcing could also eliminate the fencing of whole functions or activities from competition, thereby leading to better segregation of these functions or activities in order to maximize competition. It could also result in a redesignation of a function or activity from the inherently governmental or exempt category to a commercial activity that is available for competition. This Program is not intended to nor should Components integrate inherently governmental functions and exempt functions with commercial activities during strategic sourcing for the purpose of fencing them from competition. Additionally, strategic sourcing of commercial activities does not preclude the competition requirement for commercial activities.

The key step in the Strategic Sourcing Program is to define properly the whole function, activity, or organization in order to optimize or improve the level of performance or service at a reduced cost. This process is continual, as indicated in the attached flow chart, and can result in various outcomes depending on how functions or organizations are defined.

### **STRATEGIC SOURCING PROGRAM CRITERIA**

The Strategic Sourcing Program provides an approach that DoD Components may elect to use in order to meet or exceed their competitive sourcing goals. It is not a mandatory program for DoD Components as it builds on existing DoD manpower processes. If Components elect to use the Strategic Sourcing Program to meet their competitive sourcing goals, a rigorous accounting of the savings achieved will be required. Specifically:

- Strategic sourcing must be a management approach unique to a specific DoD Component that has complete, functional, or organizational assessment with buy-in from leaders at all levels and requires continued SES/Flag Officer/General Officer oversight. Participation of federal employees and their representatives and the private sector is encouraged.
- A Component must develop and maintain a Strategic Sourcing Program Plan of Action that shall include the following data for the budget fiscal year: command, function, activity, unit identification code, location, as-is condition (current fulltime equivalents (FTEs) and cost), analysis start date, implementation start and completion dates, spaces to be saved, and a description of the initiative. This plan is presented to the DUSD(I) for approval and it must distinguish between A-76 initiatives (i.e., cost comparisons and direct conversions) and other strategic sourcing initiatives. It must also include a plan to fund consolidation or reengineering initiatives.
- A Component's approach to strategic sourcing must be auditable and distinguish A-76 savings from strategic sourcing savings. A Component's Plan of Action must be trackable to its POM and BES submissions. DoD Components will be subjected to a rigorous audit by the DUSD(I) during the execution of the Plan during the Budget Review Process to validate program execution. The savings identified in a DoD Component's Plan of Action must parallel the Component's POM and BES submissions.
- A Component's Strategic Sourcing Program shall continue to demonstrate the Department's focus on competitive sourcing (i.e., A-76 cost comparisons, direct conversions) by competing the commercial activities either while the strategic sourcing study is in-progress or within five years after strategic sourcing has been completed (unless these activities cannot be packaged for competition).
- Components must comply with the appropriate notifications required by statute, e.g., 10 USC § 2461, as well all pertinent authorization and appropriations acts, regulatory, and policy requirements.

# Strategic Sourcing Program Decision Tree

